

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES)
OF CHENOWETH SANITATION, INC.) CASE NO. 8092

O R D E R

On December 9, 1980, Chenoweth Sanitation, Inc., ("Applicant") filed an application with this Commission requesting authority to increase its sewer service rates by approximately \$38,238 annually, an increase of 109%.

On December 12, 1980, the Division of Consumer Intervention in the Department of Law filed a motion to intervene in this proceeding. The Chenoweth Hills Property Owners' Association, Inc., filed a motion to intervene on April 3, 1981. These motions were sustained and both parties participated in the proceedings. A hearing was scheduled for April 8, 1981, at the Commission's offices in Frankfort, Kentucky. All parties were notified and the hearing was conducted as scheduled.

COMMENTARY

Chenoweth Sanitation, Inc., is a privately owned sewage treatment system serving approximately 328 customers in the Chenoweth Hills Subdivision in Jefferson County, Kentucky.

TEST PERIOD

The Commission has adopted the twelve-month period ending September 30, 1980, as the test year for the purpose of determining the reasonableness of the rates proposed herein. Pro forma adjustments

have been included where found reasonable and proper for rate-making purposes.

REVENUES AND EXPENSES

Applicant proposed several adjustments to revenues and expenses as reflected on its income statement. The Commission is of the opinion that the proposed adjustments are generally proper and accepted for rate-making purposes with the following modifications:

1. Applicant proposed an adjustment of \$2,003 for increased electric expense. The adjustment was based on a projected increase in cost due to the addition of a new treatment plant and an estimated inflation factor of 5%. In determining the increased cost, Applicant assumed that the new treatment plant would operate at one-third capacity based on 363 customers. Using this assumption, Applicant proposed an additional cost based on one-third of the actual electric expense for the test year adjusted for the inflation factor. The Commission is of the opinion that the new treatment plant should provide for more efficient operation of the sewage treatment facilities and does not agree with the Applicant's assumptions supporting this adjustment. Therefore, the Commission will not allow \$1,034 of the proposed adjustment. The Commission has, however, adjusted the electric expense based on the current rates of Louisville Gas and Electric Company.

2. Applicant proposed an adjustment to the monthly routine operation and maintenance expense and sludge hauling expense to reflect increased costs due to the new treatment plant addition. The Commission is of the opinion that sludge hauling expense will not increase as a result of this addition but will remain constant. Therefore,

the Commission will allow an adjusted expense of \$5,100 to reflect 60 loads annually at \$85 per load. Further, the Commission finds from the evidence of record⁽¹⁾ that the operating fee to be charged Applicant will only be \$700 a month rather than the \$800 originally proposed, which results in an adjusted annual expense of \$8,400.

3. The adjustments to maintenance and supplies expense of \$108, office expense of \$14, miscellaneous expense of \$215, and insurance expense of \$180 are not known and measurable inasmuch as they are based solely on estimated inflationary increases in costs and should not be included for rate-making purposes.

4. Applicant proposed an adjustment to reflect increased costs in collection charges from Louisville Water Company. The adjustment was calculated in error in that the total joint service charge was used in the calculation rather than the pro rata share of the charge. Therefore, the Commission has adjusted this expense to \$1,633 based on 328 customers.

5. Applicant proposed to include a reserve fund in determining the revenue requirements in the amount of \$10,766 in lieu of depreciation expense. Applicant's balance sheet reflected contributions in aid of construction as 100% of total plant. It is the intent of the Commission that Applicant, through its sewer service rates, will generate revenues sufficient to recover all costs incurred in providing service to its customers. However, it is not the Commission's intent that Applicant charge its customers for costs it has not incurred, as would be the case if Applicant were allowed to charge its customers for

⁽¹⁾Response to Staff Request No. 1 on March 17, 1981, response 2.

depreciation on contributed property. Therefore, the Commission has disallowed the reserve fund for rate-making purposes.

6. The actual test-year expenses contained property tax expenses and health department fees for a prior period. The Commission has excluded these expenses totaling \$2,352 from the test-year expenses.

7. During the test year, Applicant paid \$6,300 to the stockholders for management and supervision fees. Based on testimony concerning the work performed by the individual stockholders⁽²⁾, the Commission is of the opinion that these fees are excessive. The Commission is of the opinion that a reasonable fee for these services is \$1,800. Therefore, any fees exceeding this amount will not be considered for rate-making purposes.

8. Applicant proposed an adjustment to increase engineering expenses by \$833 for rate case related expenses and \$300 for an increase in the annual fee. The record reflects that the engineering fees for rate case purposes were incurred in 1978 for Case Number 7209, and that no engineering expenses were incurred during the test year or subsequent to the test year for the present rate case. Also, Applicant did not provide sufficient justification for the additional annual engineering expense. Therefore, the Commission has not included these adjustments for rate-making purposes.

9. The Commission has reduced for rate-making purposes Applicant's annual test-year expense for accounting fees by \$255 to exclude the amount included for a prior rate case.

10. Applicant proposed an adjustment to income taxes in the amount of \$1,704. The Commission has allowed \$1,447 of this expense

⁽²⁾ Transcript of Evidence of April 8, 1981, page 30, response 38.

for income taxes based on the revenues and expenses found reasonable herein.

11. The Commission has reduced Applicant's test year payroll taxes by \$187 to reflect only the amount related to the salaries allowed in this case.

Based on the adjustments, Applicant's test period operations would appear as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 36,652	\$ -0-	\$ 36,652
Operating Expenses	39,143	153	39,296
Operating Income (Loss)	<u>\$ (2,491)</u>	<u>\$ (153)</u>	<u>\$ (2,644)</u>
Interest Expense	519	577	1,096
Net Income (Loss)	<u><u>\$ (3,010)</u></u>	<u><u>\$ (730)</u></u>	<u><u>\$ (3,740)</u></u>

REVENUE REQUIREMENTS

The Applicant proposed net income of \$7,500. Based on the above adjusted operating statement, this would result in an operating ratio of 84%. The Commission is of the opinion that an 88% operating ratio is fair, just and reasonable and should be used in this case. It will permit Applicant to pay its operating expenses, service its debt and provide a reasonable return to Applicant's owner. Therefore, the Commission finds that Applicant is entitled to increase its rates to produce total revenues of \$45,854 or an increase in revenues of \$9,202.

RATE DETERMINATION

Applicant proposed to base its operating revenue on 363 customers. Testimony indicated that due to current economic conditions, it would not actually achieve this number of customers in the near future. Therefore, the Commission is of the opinion that the test year end customers of

328 should be used in determining the rates herein. Therefore, the rates set out in Appendix A will produce gross revenues of \$45,854, based on test year end customers.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates proposed by Chenoweth Sanitation, Inc., would produce revenues in excess of those found reasonable herein and therefore must be denied upon application of KRS 278.030.

The Commission further finds that the rates set out in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for sewage service rendered by Applicant in that it will permit Applicant to meet its reasonable operating expenses and to accumulate a reasonable surplus for equity growth.

IT IS THEREFORE ORDERED that the rates set forth in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to be charged for sewage service rendered by Chenoweth Sanitation, Inc., on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Applicant are hereby denied.

IT IS FURTHER ORDERED that Chenoweth Sanitation, Inc., shall file with this Commission within 30 days from the date of this Order its current rules and regulations and its revised tariff sheets

setting out the rates approved herein.

Done at Frankfort, Kentucky, this 2nd day of July, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Guthrie Randall
Vice Chairman

L. M. Hargis
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8092 DATED JULY 2, 1981.

The following rates are prescribed for sewage disposal rendered to all customers served by Chenoweth Sanitation, Inc., which serves the customers in Jefferson County, Kentucky.

All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

Applicable: All Residential Units

	<u>Monthly Charge</u>
Rate: Monthly Sewer Service Rate	\$ 11.65